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ADVANCES AND PREPAYMENTSINTRODUCTION

.01 Advances and prepayments are transfers of assets to cover future expenses or acquisition of other assets. Advances are prepayments in contemplation of the later receipt of goods, services, or other assets. Advances are ordinarily made only to payees to whom an agency has an obligation and not in excess of the amount of the obligation. A common example is travel advances which are amounts made available to employees prior to the beginning of a trip for costs to be incurred in accordance with the Travel Expense Act of 1949 and in accordance with standardized government travel regulations.

ACCOUNTING STANDARDAdvances and Prepayments as Made

.02 Agencies making advances or prepayments shall record them as assets until receipt of the goods or services involved or until contract terms are met. When goods or services have been received or contract terms met, the expense or acquired asset shall be recognized and the advances or prepayments reduced. For example, an advance for travel is recognized as an asset when made, and is recorded as an expense, with a corresponding reduction in the asset, when travel is performed.

.03 For advance payments to award recipients, see the Grants and Cooperative Agreements standard, section G10.

Advances and Prepayments Received

.04 An agency receiving an advance or prepayment shall record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), the agency shall record the appropriate amount as revenue or a financing source and reduce the liability accordingly.

Disclosure

.05 Advances and prepayments both made and received should be aggregated but not netted against each other and, if the amounts are material, shown as a separate line item on the financial statements instead of being included in accounts receivable or accounts payable.

.06 Agencies shall report or disclose separately the amount of advances, and prepayments, associated with (1) nonfederal entities and (2) federal agencies if material.

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APPROPRIATIONS FOR PROPERTY,
PLANT, AND EQUIPMENT

INTRODUCTION

.01 This standard provides guidance in accounting and reporting appropriations for property, plant, and equipment.

ACCOUNTING STANDARD

.02 The amounts of appropriations for property, plant, and equipment are reflected as part of the unexpended appropriations in the equity section of the agency's Statement of Financial Position until expended. When expended, the amounts are transferred from the Unexpended Appropriations account in the equity section to the Invested Capital account in the equity section. The transfer shall be reported in the Statements of Changes in Financial Position.

.03 If property, plant, and equipment acquired with appropriations are depreciated, it will be reported as a nonoperating cost in the Statement of Operations. An amount equal to each year's depreciation expense shall be removed from the Invested Capital account and reported as a financing source in the Statement of Operations. (A like amount is also reported as an operating cost in the Statement of Operations.)

.04 When property, plant, and equipment are retired, the assets shall be removed from the accounting records, including any related amounts of depreciation. Gains or losses must be recognized on retirement of depreciated property, plant, and equipment. (See the Property, Plant, and Equipment standard, section P40, paragraph .14-.17.) An amount equal to the net book value of assets retired should be removed from the Invested Capital account.

.05 The application of this standard is similar to the illustration included in the Equity of the U.S. Government standard, section E20, paragraph .15.

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CAPITALIZATION OF INTEREST ON
PROPERTY, PLANT, AND EQUIPMENTINTRODUCTION

.01 This standard provides guidance for capitalizing interest cost as a part of the historical cost of acquiring certain pieces of property, plant, or equipment (specified in paragraph .03).

.02 The objective of capitalizing interest is to obtain a measure of acquisition cost that more closely reflects the agency's total investment in the asset.

ACCOUNTING STANDARD

.03 Interest cost paid by the agency shall be capitalized as part of the historical cost of acquiring certain pieces of property, plant, or equipment where it is material. To qualify for interest capitalization, property, plant, or equipment must require an acquisition period (specified in paragraph .07) to prepare them for use in agency operations or for sale outside of the federal government. The interest cost to be capitalized is based on the interest rate that the agency is charged by Treasury.

.04 Interest cost shall not be capitalized for inventories. In addition, interest cost shall not be capitalized for property, plant, or equipment that (a) is in use or ready for its intended use or (b) is not being used by the agency and is not undergoing the activities necessary to get it ready for use.

.05 Imputed interest cost shall not be capitalized for property, plant, and/or equipment constructed for use in agency operations or to be sold outside the federal government. The imputed interest cost, however, shall be included in the selling price of the property, plant, or equipment. (See the Imputed Interest standard, I10, for guidance on including imputed interest cost in the selling price.)

.06 The amount of interest cost capitalized for qualifying assets is intended to be that portion of the interest incurred by the agency during the asset acquisition period that theoretically could have been avoided (for example, by avoiding additional borrowings) if the expenditures for the assets had not been made.

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.07 The interest capitalization period begins with the first expenditure for a qualifying asset and ends when the asset is substantially complete and ready for its intended use. The interest cost shall be capitalized when two conditions are present:

- (a) Expenditures for the asset have been made.
- (b) Activities that are necessary to get the asset ready for its intended use are in progress.

Interest capitalization shall continue as long as those two conditions are present. The term "activities" is to be construed broadly. It encompasses more than physical construction; it includes all the steps required to prepare the asset for its intended use.

Disclosure

.08 The total amount of interest costs, if any, that have been capitalized during the period shall be disclosed in the notes to the financial statements.

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COMPARATIVE FINANCIAL STATEMENTSINTRODUCTION

.01 This standard requires the presentation of financial information from the preceding year in annual financial statements issued in accordance with the Financial Reporting standard, section F20.

ACCOUNTING STANDARD

.02 The annual financial statements (as required by F20.02) are to include consolidated comparative financial data from the immediate prior year if the department, independent agency, or other governmental unit was in operation during the prior year. Data shall be reported in a format consistent with the current year's. Reclassification of significant prior-year amounts to achieve comparability shall be explained in the footnotes.

.03 Footnotes and other explanations from prior-year statements necessary to disclose information regarding the prior-year data properly are to be included in the current-year statements.

Transition Policy

.04 In implementing this standard, agencies comparative financial statements need not be included when the initial set of financial reports are issued. Thereafter, agencies must issue comparative financial statements in accordance with this standard.

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COMPENSATED ABSENCESINTRODUCTION

.01 A compensated absence is an employee absence, for vacation or illness, for which the employee will be paid. When employees accrue rights to take leave with pay, the government incurs an expense and liability measured by the salary cost of the time that may be taken.

ACCOUNTING STANDARD

.02 The accrual of annual leave in the federal government is material and needs to be recognized annually in agency accounting records and financial statements. Federal employers, therefore, shall recognize the expense and related liability for annual leave (including home leave) as it accrues. Sick leave need not be accrued unless such information is needed for budget and management purposes. The expense and related liability for annual leave shall initially be recorded at the wage rates at which the leave is earned. Use of a fringe benefit rate is also acceptable for calculating accrued annual leave.

.03 The liabilities for annual leave shall be adjusted to reflect all pay increases and unused leave balances at least annually for financial statement purposes.

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CONSOLIDATED FINANCIAL STATEMENTS
OF THE U.S. GOVERNMENT

INTRODUCTION

.01 This standard applies to the accounting and reporting for the consolidated financial statements of the United States government. These statements present the financial position and operating results of the various components of the federal government (departments and independent agencies) as a single entity, and are sometimes referred to as "business-type" statements. This standard does not apply to "cash based" Treasury combined statements, budget reports, or the national accounts.

ACCOUNTING STANDARD

.02 The accounting principles and standards presented in other sections of appendix I to title 2 are applicable to the consolidated financial statements of the United States government. The standards discussed in this section are those of particular importance to the process which produces the consolidated financial statements of the United States government.

Presentation of the Consolidated Financial Statements

.03 The consolidated financial statements of the United States government shall be prepared at least annually and shall include the following financial statements, including footnotes thereto:

- (1) Statement of Financial Position (Balance Sheet),
- (2) Statement of Operations,
- (3) Statement of Changes in Financial Position, and
- (4) Statement of Reconciliation to Budget Reports.

.04 The general format of these statements shall be specified by the Treasury, consistent with GAO principles and standards. The above financial statements shall be prepared in accordance with the Financial Reporting standard, section F20, paragraphs .04 through .10. The consolidation policy shall be fully disclosed in the notes to the consolidated financial statements.

Consolidated Entity

.05 The reporting entity for the consolidated financial statements of the United States government shall be comprised of all departments, independent agencies, and other governmental units of the executive branch (referred to throughout this standard as departments or independent agencies). Also, in the interest of providing a more complete and accurate presentation of the government's financial position and results of operations, the consolidated

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financial statements should also include the legislative and judicial branches of the federal government, as well as the federally-owned government corporations. This concept of entity includes the United States Postal Service but excludes the Federal Reserve System as well as privately-owned government corporations.

Support Base for the Consolidated Financial Statements

.06 The financial position, operation results, and reconciliations reported by each department or independent agency comprising the reporting entity for the consolidated financial statements shall be the basis for the financial information presented in the consolidated financial statements of the United States government.

.07 The amounts presented in the consolidated financial statements shall agree with the total of like amounts reported in the financial statements of the departments or independent agencies comprising the consolidated entity less of any required adjustments and eliminations.

Reconciliation to Budgetary Amounts

.08 The financial data presented in the consolidated financial statements shall be consistent with similar amounts presented in budgetary reports. Differences shall be reconciled in the Statement of Reconciliation to Budget Reports (required by paragraph .03). This statement shall reconcile the information presented in the consolidated financial statements to that reported in the Treasury Combined Statement of Receipts, Expenditures and Balances of the United States Government.

.09 Material items of reconciliation shall be fully disclosed in either the Statement of Reconciliation or the notes thereto.

Interagency Transactions

.10 During the consolidation process, interdepartmental and/or interagency balances and transactions shall be eliminated. This includes interdepartmental and/or interagency open account balances, security holdings, sales and purchases, interest, etc.

.11 All interdepartmental and/or interagency profit or loss on assets remaining within the government shall be eliminated. This applies to inventory as well as property, plant, and equipment.

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Depreciation

.12 The depreciation reported in the consolidated financial statements shall be based on the detailed property and accounting records of each individual department or independent agency (for those that do report depreciation). If a department or independent agency does not normally depreciate its assets, amounts of depreciation shall be calculated by the Treasury and reported for the consolidation process in accordance with these standards.

Federal Benefit Programs

.13 The consolidated financial statements shall include a liability for federal benefit programs that represents the government's responsibility under these programs. Amounts shall be determined in a systematic, rational, and consistent manner and in accordance with the Liabilities Based on Actuarial Calculations standard, section L20, or the Pension standard, section P20, as applicable. For the federal old-age and survivors disability insurance programs, the consolidated financial statements shall include the liability for the actuarial present value of accumulated benefits determined in accordance with the Liabilities Based on Actuarial Calculations standard, section L20, paragraphs .07 through .14.³

.14 For the year in which the liability is initially recorded, the corresponding charge shall be made to the accumulated results of operations. Each year thereafter, the net change in the liability shall be charged to expense.

.15 The accrued liability for accumulated benefits shall be presented in full. The assets available within each program to pay for the benefits shall not be netted against the liability. The assets shall be shown separately and subjected to the consolidating adjustments and eliminations.

³ The federal old-age and survivors disability insurance programs (administered by the Social Security Administration) are complex programs involving significant amounts. Because of this, a final decision on the accounting and reporting standard for these programs in the consolidated financial statements has not been reached, but rather is still being studied. Until a final decision is made, the actuarial liabilities for these programs shall be calculated and reported in accordance with paragraphs .07 through .14 of the Liabilities Based on Actuarial Calculations standard, section L20, or the Pension standard, section P20.

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CONTINGENCIESINTRODUCTION

.01 Contingencies are existing conditions, situations, or circumstances involving uncertainty about possible gains or losses. These uncertainties will be resolved in the future when one or more events occur or fail to occur, e.g., an asset is acquired, a liability is reduced, an asset is lost or impaired, or a liability is incurred.

.02 "When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. This section uses the terms probable, reasonably possible, and remote to identify three areas within that range, as follows:

- (a) Probable: The future event or events are likely to occur.
- (b) Reasonably possible: The chance of the future event or events occurring is more than remote but less than likely.
- (c) Remote: The chance of the future event or events occurring is slight." ⁴

.03 Events that could cause an asset to be impaired or a liability to be incurred may occur after the date of an agency's financial statements, but before those financial statements are issued. Such events may not meet the criteria for accrual (see paragraph .04), but may require disclosure under this standard.

ACCOUNTING STANDARDAccrual of Loss Contingencies

.04 Accrual and disclosure of contingencies varies depending on their probability of occurrence. Estimated losses shall be recorded in agency financial systems and reported in their financial statements if (1) information available before the financial statements are issued indicates that an asset probably has been impaired or a liability probably has been incurred as of the date of the financial statements and (2) the amount can be reasonably estimated.

⁴ FASB Current Text, section C59, paragraph .104

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.05 The estimated loss associated with probable contingencies may be a specific amount or a range of amounts. If an agency can determine a reasonable estimate or if the reasonable estimate of the loss is a range, an amount shall be recorded for the loss. If some amount within the range appears, at the time to be a better estimate than any other amount within the range, that amount shall be recorded. If no amount within the range appears to be a better estimate than any other amount, the minimum amount in the range shall be recorded. (See the illustration in paragraph .12.) Even though the minimum amount in the range is not necessarily the exact amount of loss that will ultimately exist, it is not likely that the ultimate loss will be less than the minimum amount.

.06 Disclosure of the nature of an accrual made pursuant to paragraph .04 is necessary if without such disclosure the financial statements would be misleading. The decision to disclose shall be based on the materiality of the loss contingency and its possible impact on the agency's financial statements and operations.

Disclosure of Loss

.07 If no accrual of a loss contingency is recognized because one or both of the conditions in paragraph .04 are not met, or if the possible loss to which the agency is exposed exceeds the amount accrued and there is at least a reasonable possibility that a loss or an additional loss may have been incurred, the contingency shall be disclosed. Minimum disclosure includes the nature of the contingency and an estimate of the possible loss, an estimate of the range of the possible loss, or a statement that such an estimate cannot be made. For example, an agency may know that an asset probably has been impaired or a liability probably has been incurred, but it may be unable to estimate the amount of the liability within reason. In these cases, the agency shall disclose the contingency in the footnotes to the financial statements, describing its nature and stating that no firm estimate is available. An example of this type of contingency may be certain loan guarantees, when the guaranteeing agency believes it is reasonably possible that losses will be incurred as a result of events that occurred before the date of the financial statements, but the magnitude of the losses cannot be estimated.

.08 After the financial statement date but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements, or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. If an asset was not impaired or a liability was not incurred as of the date of the financial

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statements, then the conditions for accrual have not been met. Those kinds of losses or loss contingencies shall be disclosed, however, if such disclosure is needed to keep the financial statements from being misleading. If disclosure is necessary, it shall indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss (or possible loss) or state that such an estimate cannot be made.

Gain Contingencies

.09 Contingencies which might result in significant gains shall not be included in income but shall be disclosed in the footnotes to the financial statements. When an agency discloses a gain contingency, it should exercise due care to avoid misrepresenting the likelihood of realization. Gain contingencies include claims against contractors.

Funding of Contingencies

.10 Contingencies that meet the criteria of this standard shall be reported regardless of whether they are funded. The notes to the financial statements shall disclose whether funds have been obligated. This standard does not address when funds should be obligated. Refer to the Fund Control standard, section F50. An example of a contingency which may be funded is a loan guarantee, when a certain percentage of debtors are expected to default. An example of a contingency which may not be funded is pending litigation.

Claims Settled by Agency or Other Body

.11 When claims against the U.S. government arise, they are generally filed with the agency where the claim arose. The agency shall assemble and maintain information relevant to settling the claim. The claim is then settled based on governing statutes or regulations, which may provide for the agency to resolve the claim or for referral to another agency or body for settlement. Accountability for the contingent claim shall be maintained by the agency where the claim originated until settlement occurs, in accordance with paragraphs .04-.10 above. Settlement is determined either by the originating agency, the Department of Justice, the General Accounting Office, or other responsible body as specified by statute or regulation.

Illustration of Contingencies

.12 Assume that an agency has a lawsuit filed against it before the statement date. When the financial statements are prepared,

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the agency estimates the potential loss to be between \$10 million and \$12 million, depending on the outcome. Based on a legal opinion that such a loss is probable, the best estimate is an \$11.5 million loss. In this case, the agency shall record an \$11.5 million contingent liability and disclose the nature of the contingency in the notes to the financial statements. A statement should also be included that final disposition of the case is still pending. If the agency is unable to determine a best estimate, then it shall record a \$10 million contingent liability and disclose the nature of the contingency in the notes to the financial statements. Other examples of contingencies include the following:

- risk of loss of or damage to property, regardless of age, by fire, explosion, flood, or other hazards; and

- claims filed against the government.

Examples of estimates that are not contingencies include depreciation and estimated utility bills. These are not contingencies because, in the case of depreciation, eventual expiration of the asset is certain and, in the case of utility bills or similar items, the existence of the liability is certain, but its exact amount is not.

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DEBT AGREEMENT MODIFICATIONINTRODUCTION

.01 This standard specifies the accounting to be followed by creditor federal agencies when they have agreed to modify debt agreements because of the debtor's financial difficulties. Normally, debt modification includes the creditor accepting, in full satisfaction of the debt, cash and/or assets with a fair value less than the recorded value of the debt, or the creditor agreeing to modify the debt terms, such as the interest rate or the payment period. This standard also addresses the accounting to be followed when the fair value of the assets received in satisfaction of the debt exceeds the recorded value of the debt. (See paragraph .04.)

ACCOUNTING STANDARD

.02 Creditor federal agencies shall account for modifications to debt agreements in accordance with the following paragraphs.

Acceptance of Assets in Full Satisfaction of Debt

.03 When a federal agency accepts cash and/or assets in full satisfaction of a debt even though the total fair value received is less than the agency's recorded value, the excess recorded value shall be recognized as a loss in the current operating period. The fair value of the assets received shall be determined in accordance with the Fair Value standard, section F10, paragraphs .02 and .03.

.04 When the appraised (or fair market) value of the assets received (including assets acquired through foreclosure) exceeds the total of unpaid loan and interest owed by the borrower, the excess asset value shall be credited to a loan recovery account. This loan recovery account shall be combined with the provision for uncollectible loan expense on the statement of operations to show the net loss on loans.

Modification of Debt Terms

.05 Changes to debt terms shall generally be accounted for prospectively. The total future cash receipts (both principal and interest) under the modified agreement are to be compared to the current recorded amount of the receivable. If total principal and interest payments under the agreement exceed the recorded amount, no adjustment shall be made to the recorded amount. To the extent that the total future cash receipts exceed the recorded amount,